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THE OUTLOOK FOR FRANCE

Submitted by the

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Concurred in by the

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THE OUTLOOK FOR FRANCE¹

THE PROBLEM

To assess the situation in France, with particular emphasis on the Algerian conflict and the economic situation; and to estimate the effect of probable developments on the French domestic and international position through 1960.

SUMMARY AND CONCLUSIONS

1. France, besides its usual troubles of a political system which few citizens respect and an economic system which is still outmoded in many ways, is currently burdened with two acute problems: the Algerian war and a financial crisis marked by rising prices and by large deficits in the budget and balance of payments. Until these problems are solved, France is unlikely to make much progress in internal reforms and will fall short of meeting its commitments to NATO and to the European community.

2. The attempt to hold Algeria by force shows little promise of success and French leaders are slowly being driven to the conclusion that they must negotiate with the rebels. Public opinion is not yet prepared to accept the loss of Algeria, and it may be some time before any government feels that it can abandon a repressive policy or risk open negotiations with rebel leaders. Nevertheless, we believe that there is about an even chance that within the next 18 months a French government will offer a wide measure of autonomy, coupled with

the promise of eventual independence to Algeria. While such an offer would arouse strong *colon* opposition in Algeria and right-wing protests in France, we believe that the army would not support the *colons* and that the government could implement the agreement. The Algerians would probably accept the offer because they realize that they cannot win a complete victory and because they would expect that autonomy could be quickly transformed into independence.

3. The government is at present trying to solve the financial problem by tax increases, budget cuts, and above all by imposing drastic restrictions on imports. The protectionist aspects of this policy will probably slow down the recent rapid rate of industrial growth and may delay fulfillment by France of its obligations to the European Common Market. Any drastic change in French economic policies is unlikely before the Algerian con-

¹ This estimate supersedes both NIE 22-56, "The Outlook for France," published 10 July 1956, and NIE 71.2-56, "Outlook for Algeria," published 5 September 1956.

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flict is settled. The chances are slightly better than even that in the climate created by such a settlement a French government would utilize the opportunity to take measures which would in time enable France to cooperate unreservedly in European institutions without fears for its economic future.

4. France will almost certainly remain a member of the Western alliance, because the French realize that this alliance is fundamental to their security. At the same time, France will follow an independent political line in some matters, such as dealings with the Arab world and attempts to relax East-West tensions. France will continue to fail its NATO partners by not making the defense contribution which would be most useful to the alliance. French armed forces will be employed to protect the French position in Africa to the detriment of the NATO defense of the European continent. It is also probable that funds and efforts will be diverted to an independent nuclear weapons program which will have

little military value for NATO during the next few years.

5. The French will remain loyal to the principle of European integration, but will give their partners in the European community some bad moments. The French will be cautious in taking any further steps toward closer integration and they may find it difficult to implement the commitments already taken.

6. The French believe that they deserve to hold a leading position in the world. Yet they have witnessed repeated financial crises and a steady erosion of their power position. Many citizens are frustrated and depressed, but we do not think that there is any immediate prospect that the Republic will be overthrown. The Communists do not now have the capability, and the extreme right lacks leaders, followers, and a program. Government-as-usual will probably continue, and there will be a stalemate on many issues. Some problems will be settled, but France will probably not undertake a basic reappraisal of its internal needs and of its international position.

DISCUSSION

INTRODUCTION

7. France at present is at grips with two particularly serious problems: the Algerian conflict and a financial crisis. These issues are interrelated; the economic costs of the Algerian war aggravate economic difficulties. These problems limit the freedom of maneuver of French cabinets in determining both internal and foreign policy. They make it difficult for the government to fulfill its international obligations or to implement internal reforms. Domestic controversy over Algeria has driven another wedge into a society already disposed to disagree over fundamentals.

8. The French people are in a state of uncertainty and frustration. A large part of the population feels that it is not obtaining the social and economic benefits to which it is entitled, in spite of striking increases in production. Others are deeply concerned over the steady decline of their country's power status in spite of all diplomatic and military efforts during the postwar years. The nature of the present French political set-up intensifies the frustration of these and other groups.

9. In 1956 the French elected a National Assembly, which is scheduled to last until 1960, in which almost one-third of the deputies

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(Communists and Poujadists) are opposed to constitutional government. The remaining two-thirds of the deputies are divided among the Socialists, the center parties,² and the conservative Independents and Peasants (*Modérés*). These groups — especially the two strongest, the Socialists and the *Modérés* — are too deeply divided by ideological and other differences to permit the pursuit by any government of the firm policies which the situation demands. Instead, the two cabinets which have been installed by the present Assembly have not had reliable majorities, and have been based on the uneasy and precarious cooperation of the Socialists and the parties of the center. The only other current possibility is a government of the center with support from the *Modérés*. Neither type of government is likely to bring about basic improvements in the national economy and in France's world position.

10. The experience of the Mollet government illustrates these difficulties. The formation of a predominantly Socialist government in 1956 stimulated popular expectations, especially among the working class, of social and economic reforms. Many intellectual leaders, particularly among the followers of Mendès-France, hoped that through the cooperation of Socialists and Radicals, France could be set on a new road which would restore vigor to the Republic and reduce the appeal of Communism. These hopes were largely disappointed. Mollet did initiate a number of social measures, but their scope was limited by his preoccupation with the Algerian problem and his growing dependence on the center-right. Furthermore, by adopting a policy of repression in Algeria, he alienated many of his allies on the left, including Mendès-France and his group, and provoked dissensions within his own party.

11. The present cabinet, led by Bourguès-Maunoury, has won even less confidence, and its life-expectancy is short. But the fall of the Bourguès government is unlikely to solve

² The most important party groups roughly in the center are: the Radical Socialists (including dissident Radicals), the UDSR, the Social Republicans (ex-Gaullists), and the MRP.

France's more serious problems, since a successor government will have to be built on the same shaky foundations. Realizing this, the average Frenchman has become even more cynical about his civic responsibilities and even more disillusioned about parliamentary processes than normally. Taking all these factors into account, it is highly unlikely that France can make much progress until the two overriding problems of Algeria and the financial crisis are confronted and resolved.

THE ALGERIAN PROBLEM

Algeria's Importance to France

12. Especially since the Suez affair, the Algerian conflict has come to overshadow all other problems confronting France. In many ways it resembles a major war: over 400,000 members of the French armed forces are involved, costs are heavy, and decision and action on other problems and policies have all been affected. France is committed to an effort to retain control of an area which has legally been part of metropolitan France for about a century and which contains roughly a million citizens of European extraction (*colons*) in a population of about nine million; perhaps one out of seven Frenchmen has a family connection in Algeria.³ Many Frenchmen are convinced that their possession of Algeria is vital to French status as a world power, and as a counterbalance to the growing weight of West Germany in Europe and in the Western alliance. They also fear that loss of Algeria would be a prelude to the disintegration of their influence in other African areas.

13. Economic and military interests bolster these considerations. Private investments in Algeria held in continental France may amount to \$500 million; French public investment since 1945 has totalled roughly \$800 million; *colon* holdings may represent several

³ We use the term *colon* to describe all such Europeans — the majority of whom are urban workers — rather than merely the great landowners of French descent. It is possible that only about half these Europeans, who are concentrated in the coastal region, originally derived from continental France.

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billion dollars. Trade with Algeria is very important to certain influential French interests (and vital to Algeria). Moreover, the French have in Algeria extensive air installations, excellent army training facilities, and their primary guided missile range. The French will regard the Sahara as a natural testing area for nuclear weapons. Also, their naval base at Mers-el-Kébir is one of the most important and most modern of such installations in the Mediterranean area.

14. These interests are reinforced by the recent significant oil discoveries in the Southern Territories of Algeria. The French hope that early development of these discoveries (still of unproved capacity), will eventually lessen their dependence on Middle East oil. Other mineral resources also have been found throughout the French Sahara. An economic organization to exploit these Saharan oil and mineral resources was set up by the French some months ago, and the French government includes a new Ministry for the Sahara.

15. The above factors in large measure account for the determination of the French to retain control of Algeria. They explain the intensity of French feeling, and also the ruthlessness with which at times they have conducted their military operations. Almost all the *Modérés* and the majority of the MRP, Radicals, and Socialists are publicly committed to retaining the French hold on Algeria, even though many of the leaders of these parties will privately admit that there is little promise of obtaining a settlement on their terms.

The Situation in Algeria

16. *Rebel Strength and Capabilities.* The National Liberation Front (FLN) has more than held its own against the French over the past year. The numbers of its "Liberation Army" (ALN) have remained roughly constant at about 20-25,000; expansion has probably been limited by shortage of arms rather than lack of manpower. Its increasingly heavy casualties appear to be replaced without much difficulty; it can also count on occasional assistance from armed sympathizers. Despite the French capture of five rebel leaders last Octo-

ber and the French claim to have decimated the ranks of the FLN directing bodies, the nationalist movement appears to possess effective organization and leadership. There are continuing reports of confusion and jealousy among the FLN-ALN members, rivalry between them and the much less numerous and effective MNA (Algerian National Movement, whose main strength is among North Africans in France), and tribal feuding in remote areas. The nationalist movement as a whole nevertheless seems to maintain its high morale, with the at least tacit support of the majority of Algerians.

17. The rebels are receiving material aid and strong diplomatic and moral support from other Arab areas. The two main channels for military supplies appear to be: (a) through Libya and Tunisia from Egypt, which seems to be providing stocks of older weapons as new ones are obtained from the Communist Bloc; and (b) from Southern European countries such as Spain and Italy. Many arms purchases are made with funds provided by Arab countries. Arab solidarity regarding Algeria, largely defying distinctions based on individual national attitudes toward the Communist Bloc-Free World controversy, is fully displayed in repeated initiatives within the UN. The strength of popular sentiment in North Africa favoring the Algerian rebels is evidenced by the refusal of Tunisia and Morocco to withhold support from the rebellion even for the purpose of retaining vitally needed French aid. Morocco is currently more successful than Tunisia in avoiding clashes with France on the Algerian issue, but this could change overnight.

18. In this situation, the FLN appears confident of outlasting the French in the present test of endurance. It continues to insist upon French recognition of the principle of Algerian independence as a precondition for entering negotiations, and it has in effect rejected both the French cease-fire offer and Tunisian Premier Bourguiba's suggestions for a test of French intentions. The nature and policy of the present French government are not likely to induce the FLN to change its attitude in the near future. It probably will maintain a

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high level of sabotage and terrorist activity over the next few months, not only to keep up pressure on the French but also to attract international attention prior to the UN General Assembly session this autumn.

19. *The Communist Role.* The influence of the small, outlawed Algerian Communist Party and of the Soviet Bloc upon the FLN rebels continues to appear slight. Considerable attention has been given over the past year or more to the much-advertised creation of local Communist *maquis* units to fight alongside the FLN. Despite the Algerian Communists' efforts to represent their role as an important and increasing one, there is no evidence that more than a handful of people are involved. Moreover, there is no evidence that the FLN has encouraged or more than tolerated whatever minor assistance may be coming from the Communists. On the other hand, some individuals with primary Communist allegiance have infiltrated the FLN. The FLN attitude probably is determined by pragmatic considerations rather than by a pro- or anti-Communist position. Thus far, the rebels probably believe that the disadvantages of a closer connection with the Communists outweigh the possible advantages. However, they would be likely to seek direct Communist help — both locally and abroad — in case it appeared expedient.

20. *The French Position.* The gulf between the Moslem and European communities in Algeria has considerably widened over the past year as the French pursued the Mollet-Lacoste pacification program. Neither the military nor the reform aspect of that dual program has brought the results anticipated by the French. French troops have taken a heavy toll of rebel forces, but without any measurable effect on nationalist strength. Certain areas have been pacified, but guerrilla activity has been resumed as soon as troops were withdrawn. French defense forces have generally been unable to prevent military supplies from reaching the rebels by land, although the navy has been generally effective in preventing the landing of arms from ships. The Lacoste reforms, which a few years ago would have seemed revolutionary, have not received much

support from the Moslem populace, partly because of fears of FLN retaliation and partly because the long-term program does not envision independence or the wide degree of autonomy which would be necessary to satisfy nationalist demands.

21. One significant result of the Lacoste policy has been the expanded role of the French Army in Algeria. Lacoste's inability to persuade local Moslem officials to accept positions created by his administrative reorganization, as well as the paucity of suitable French civil servants, has caused him to appoint military personnel to both central administrative and local governmental posts.

22. These factors appear to have placed fresh emphasis upon the military side of pacification. Additional French troops are being brought into Algeria, primarily through reduction of French forces in Tunisia and Morocco. Operations against the rebels have reached a new level of intensity. Moreover, the French command apparently has decided that since protection cannot be given all areas at once, the army will concentrate on pacifying certain regions with greater thoroughness than in the past. The French appear to be thinking in terms of creating order and inaugurating reforms in certain localities, which will serve as models of what the pacification policy can achieve. They may hope that this will also impress certain UN members next fall when France's policy toward Algeria will almost certainly come under heavy fire. In any case, this increased emphasis on repression will probably lead to heightened violence in Algeria over at least the next few months.

23. *The Colon Attitude.* The majority of the *colons* are strongly in favor of all-out war against the Algerian nationalists; their attitude has enabled the French government to claim that France stands as an indispensable arbiter between the Moslem and European communities. The *colon* riots in early June, mostly involving student and veteran groups, illustrated the intensity of anti-Moslem feeling among the European settlers in Algiers. On the other hand, as metropolitan Frenchmen have become more aware of the human and financial costs of a repressive policy in

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Algeria, they have been less willing to accept *colon* demands. This decline in *colon* influence is evidenced by the unsuccessful attempt to prevent some of the Lacoste reforms, and the acceptance by Marshal Juin (whom the settlers regard as one of themselves) of the principle of limited autonomy for Algeria.

24. Nevertheless, the French government will have to take into account the possibility of a violent *colon* reaction against any change in its Algerian policy. A sudden decision to grant Algeria independence — which is unlikely over the short run — would produce the maximum amount of *colon* violence, but even if the concessions were less abrupt and sweeping, *colon* demonstrations would probably still take place. Such demonstrations might cause a weak government to hesitate in implementing its new policy. On the other hand, *colon* violence would probably not develop into a full-scale rebellion against the French authorities in Algeria unless the *colons* received greater encouragement than we anticipate from metropolitan rightists and from the army. The army has a strong tradition of loyalty to constituted authority and while there is dissatisfaction among regular army officers in Algeria there is virtually no evidence that they are thinking of a coup. We do not believe that the army as a whole would support a *colon* rebellion, though a few officers might join the movement.

French Policies

25. *Current Policy.* The Bourguès-Maunoury government is now making what may prove to be the final French effort to solve the Algerian problem by the use of force. While this attempt falls short of an all-out war against North African nationalism, the French cannot do much more in view of international pressures, the lack of domestic support for extreme measures, and the costs of the war.

26. At the same time, the government is retaining and amplifying many of the "reform" features of the Mollet-Lacoste policy. Bourguès has announced his intention to decentralize further the Algerian administration, and to propose a statute which presumably will offer some autonomy at local and departmental

levels, with gradual advances toward a distant goal of full Algerian autonomy. Moreover, like its predecessor, the Bourguès government maintains some unofficial contact with the rebels. On the other hand, despite Lacoste's opposition, there also is a move under way to separate the Sahara politically from the coastal departments. However, any official changes in the French approach to the Algerian problem now, and over the past year, appear more as shifts in tactics than as modifications in policy.

27. This policy of repression combined with limited political reforms almost certainly will be continued as long as the present government holds office and Lacoste remains Minister for Algerian Affairs. It is possible that this renewed emphasis on force will have considerable success in certain localities, and that greater efficiency in operations — as well as greater power and responsibility for the French Army — will result from the decentralization of control in Algeria. However, it is almost certain that the present government by these means will be unable to break the back of the rebellion or to force the nationalists to accept current French terms for a settlement. An effort along these lines over a long period might result in at least a temporary stabilization of the Algerian situation through the use of force, but we do not believe that the French nation would be willing to bear the necessary costs in terms of money, morale, and manpower.

28. *Pressures for a Changed Policy.* While intense emotionalism still surrounds the Algerian issue, and charges of "abandonment" of Algeria and "betrayal" of the French Army are hurled freely, pressures for a new French policy in Algeria are mounting and objective discussion is becoming more prevalent in the press and elsewhere. An apparent majority of French "intellectuals" of the non-Communist left, as well as many of the center, are opposed to the present policy. Moreover, a number of politicians and political commentators are privately conceding the eventual French loss of Algeria. Similar but largely unexpressed fears are affecting a substantial and growing minority of the public. Most

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significant, about a third of the Socialists at their recent party congress rejected the current general French policy, and many of this group approved the principle of Algerian independence.

29. There are also indications of a changing attitude toward the rebellion not only among business interests both in France and Algeria, but within *Modéré* political circles in Paris. While there are demands for a tough policy to protect the much-publicized Saharan oil discoveries, there is also a growing realization that the present strife is incompatible with plans to extract the oil, and to build and maintain pipelines.

30. The over-all French position in Africa is also involved in consideration of the Algerian problem. The French government and the former protectorates of Tunisia and Morocco are all aware that relations between them cannot be normalized until the Algerian rebellion is settled. The Tunisians and Moroccans sympathize with the rebels but both countries also wish to avoid the spread of hostilities and to obtain French financial and technical aid. Both Bourguiba and the Sultan of Morocco have attempted to mediate between the Algerian rebels and the French, and they are likely to increase their efforts toward an Algerian settlement. In addition, the French realize that the continuation of the Algerian conflict places in jeopardy the implementation of the Overseas Reform Act (*loi-cadre*) in French West and Equatorial Africa and the economic development of these areas as parts of the European Common Market. French hopes for maintaining a real French Union — that is, close ties between the metropole and the overseas territories — depend on the success of these projects. Finally, rising French hopes for the economic development of the Sahara obviously depend on the re-establishment of peace in Algeria and, probably, the development of cordial relations with Tunisia and Morocco.

31. Nevertheless, these pressures for a changed Algerian policy have not yet gained sufficient strength to have an incisive effect in the immediate future. The French government, political parties, and public to a con-

siderable extent remain prisoners of the intense nationalist sentiment and propaganda which were evoked by the Suez affair. The present French government is unlikely to attempt official talks with the Algerians except on terms which would probably be unacceptable to the rebels. Thus it is unlikely that there will be any fundamental change in French policy leading toward an Algerian settlement at least before late autumn.

32. Over the next few months, however, we believe that additional pressures for a change will be brought to bear on the French government. France will be confronted with difficult problems in coping with the UN General Assembly discussion of Algeria this fall. It will then soon be entering the fourth year of its campaign in Algeria — except in the highly unlikely event that pacification will have succeeded by that time. The French will also be under growing external pressure from all directions, especially from the UN and their partners in the Common Market, with respect to Algeria. There will also be increasing internal criticism from the Socialists, whose official policy has already shifted to a slightly less rigid position than when Mollet was premier.

33. The political and administrative institutions of the French, as well as their pride and sensitivity, will continue to operate against any rapid change in policy. If the French felt that there had been unwarranted interference by supposedly friendly countries, this would delay any significant change. Otherwise, there is at least an even chance that by the end of this year the French will begin to give serious consideration to an Algerian settlement negotiated with the rebels.

34. French leaders could take advantage of unofficial contacts with the rebels to discover a possible basis for a settlement. We believe that the most the French would offer would be the grant of a measure of nationwide autonomy as a start, coupled with recognition of the principle of eventual independence for Algeria. Almost any French terms will be accompanied by efforts to keep Algeria within a revised or transformed French Union. The French might also propose the separation of

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the Sahara from Algeria in order to retain control of its resources, but such a scheme would encounter strong Moslem opposition.

35. The FLN appears to have become more rather than less intransigent about the terms of a settlement as a result of the French failure to repress the rebellion and the French loss of prestige in the Middle East. On the other hand, continuing French military pressure on the rebels has probably convinced them that they cannot hope for a speedy or complete victory. Therefore, if the French are not obviously forced to lead from weakness, we believe that the FLN leaders will in time agree to negotiate on terms of limited nationwide autonomy and recognition of the principle of Algerian independence. The rebels would probably believe that autonomy could be readily transformed into independence at an early date, and that needed French aid meanwhile could be retained.

THE ECONOMIC PROBLEM

36. While the attention of most Frenchmen during 1956 and early 1957 was increasingly centered on the Algerian issue — dramatized and complicated by the Suez intervention — France slid into a critical financial position with little or no public notice. The lack of widespread concern prior to the fall of the Mollet government was largely due to a seemingly paradoxical situation which still obtains: France is experiencing a relatively high degree of prosperity at the same time that the government is casting about for palliatives to its critical financial straits. The situation has now been brought home to the average Frenchman by recent tax increases, if not by Bank of France advances and reversal of the trade liberalization program. On the other hand, the French still are not inclined to accept draconian government measures and individual sacrifices as necessary to the future economic health of France.

The Current Situation

37. The deterioration of the French financial position began in 1956 after four years of economic growth with relative monetary stability. Industrial production continued to rise rap-

idly but strong inflationary pressures were created by an excess of demand for consumption and investment, both public and private, on France's almost fully employed resources. This shortfall of resources against rising demand was met primarily by an adverse balance of trade. Imports rose at an accelerating rate and exports dropped for the first time since 1952. The deterioration in the balance of payments was aggravated by the effects of bad weather on agricultural output, by the Suez crisis, and by the decline of American assistance and expenditures in France. Gold and foreign exchange holdings fell from \$2 billion in early 1956 to less than \$900 million during June 1957; they are in danger of being completely exhausted by the end of 1957. Underlying this situation was the large budget deficit. Mollet made an attempt to reduce the deficit, but his modest efforts were halted by the fall of his government on the issue of increased taxes.

38. Nevertheless, there are continuing elements of strength in the French position, particularly the growth of industrial capacity resulting from high levels of investment and modernization. Since 1954, industrial output has been increasing at a rate of about 10 percent annually, and productivity has been increasing almost as rapidly. Favorable weather conditions in early 1957 indicate a future improvement in agricultural production. GNP increased to \$52 billion in 1956, a rise of four percent in constant prices, following the seven percent rise in 1955. Gross investment expanded by over nine percent in 1956 to a level somewhat under 20 percent of GNP; these high levels continued in early 1957. After many years of economic stagnation and war French leaders have been loath to impede the growth and re-equipment of industry by over-all deflationary measures. They believe that further growth would provide the best prospects for dealing with hitherto persistent social problems, and for assuring the long-term equilibrium of the economy.

39. The political inability of the French government to limit the growth of competing demands has been largely responsible for the inflationary pressures and the external im-

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balance. As noted above, real output rose by four percent in 1956, while total claims on resources increased by six and a half percent; private and public consumption rose by over five and 10 percent respectively. Military costs, especially for operations in Algeria, are an important factor contributing to inflationary pressures. However, rising expenditures for other government activities, for investment, and for private consumption are of at least equal importance.

40. *Government Fiscal Policy.* The large deficit in the central government accounts, totalling about \$3 billion in 1956, contributes heavily to the current inflation. Premier Bourges-Maunoury's fiscal program, approved by the National Assembly in June 1957, is substantially the same as the revised Mollet program which was rejected by the Assembly a month earlier. Further increases in total expenditures apparently have been checked, but they are likely to remain at the 1956 figure of slightly over 25 percent of GNP. However, projected receipts from increased taxes should reduce the deficit in the combined budget and treasury accounts to perhaps \$2.5 billion, or from 23 percent of total government expenditures to about 18 percent in 1957.

41. The government budget does not provide a flexible means for the required deflationary action, since it is politically difficult to reduce expenditures or to raise taxes. Despite the much-publicized attempts for some months to achieve budgetary economies, over-all expenditures have remained about the same. Those decreases which have taken place have tended to be offset by increases for military operations in Algeria and for social services, particularly for old age pensions, which the Socialist Party regards as politically imperative.

42. Moreover, the traditional and pervasive intervention of the government in the economy of France hinders rather than assists the attempt to control inflation. A considerable proportion of major economic enterprises are owned by the state. In addition, the government intervenes through a complex network of social security payments, subsidies, special compensations, tax discriminations, and other

indirect measures. Farmers, craftsmen, and small firms have been particularly favored, but a myriad of other special interest groups obtain different degrees of economic support and protection. While the apparatus of intervention grew piecemeal and embodies contradictory economic objectives, its net effect is to inhibit competition and change in large sectors and to reduce the over-all flexibility of the economy. Government policy, far from obtaining greater leverage over inflationary pressures by the extent of its intervention, tends to be hamstrung by special interest groups. This is particularly true under the present tenuous parliamentary coalition.

43. *Economic Impact of the Algerian Conflict.* The cost to France, both in resources and manpower, of the insurrection in Algeria is one of the major inflationary pressures on the economy. French total defense expenditures in 1957 are likely to be approximately \$4 billion, or about 7.6 percent of estimated GNP. These expenditures are about \$1 billion higher than the annual rate prior to the outbreak of hostilities, which provides a rough indication of the real cost of military operations in Algeria. Other costs to France include a drain of resources in the form of unrequited service and commodity exports. The flow of private capital being repatriated from Algeria — estimated at \$450 million in 1956 — is not accompanied by a corresponding flow of commodities and thus tends to swell the monetary claims on resources within France. The full inflationary impact of the Algerian crisis cannot be estimated, but it is probable that the total economic drain on France amounts to about \$1.5 billion annually.

44. The pressure on manpower resources of a high level of economic activity and of the call-up for military service in Algeria has been severe. The labor force has been relatively static in recent years, with immigration only slightly exceeding the decline in the population of working age. In a period of large productivity increases, the withdrawal from the economy of men for service in Algeria has not had a very serious effect on output. It has contributed, however, to the pressure on wages.

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45. *The Level of Prices.* The French government has attempted to maintain a stable price level by direct measures. Particular attention has been given to holding down the official cost-of-living index for Paris, to which the minimum wage rate is tied. In an attempt to prevent an inflationary spiral, prices for major items comprising the index have been manipulated by tax reductions, suspensions of import duties, and price blocking; more recently the index itself has been revised. In addition, a general price stoppage was introduced in mid-1956 on domestically produced goods, trading margins, and services. These governmental measures have had a considerable effect. Nevertheless, the average prices for all commodities rose by four percent in 1956, and by two percent by July 1957. Moreover, in July the official retail price index exceeded 149.1 (1949=100) and the government was in consequence obliged to put into effect on 2 August the automatic five percent increase in the guaranteed minimum wage called for by law. While this action is expected to benefit immediately less than a million workers, it will undoubtedly, as in the past, lead to a general wage increase.

46. *The Adverse Trade Balance.* Faced by a gap between demand and supply the Mollet government permitted a rapid increase in the import surplus, apparently hoping that an early settlement in Algeria would permit a more fundamental readjustment of the economy. Under the impact of an almost full utilization of industrial capacity, imports of raw materials and semifinished products were 16 percent higher in 1956 than in 1955. Imports of finished manufactured products increased by 18 percent; food imports, by 56 percent. The total volume of imports rose by 19 percent, as compared with a rise of 11 percent in the preceding year. At the same time, French exports have been hampered by high prices resulting from inflated domestic demands; the volume of exports declined by eight percent in 1956, in contrast with a 12 percent increase in the previous year. As a result, the foreign trade deficit rose from \$235 million in 1955 to \$1.2 billion in 1956, and to an annual rate of about \$2 billion in the first five months of 1957.

47. Only about one-third of this increase in the foreign trade deficit can be attributed to extraordinary factors — the winter freeze and the Suez crisis. France, usually a net exporter of wheat (over two million tons in 1955), showed net imports of 500,000 tons in 1956. The 10 million ton increase in coal consumption caused coal imports to rise by \$100 million and coal exports to fall by \$60 million.

48. *The Balance of Payments.* As the balance of payments has worsened, speculation against the franc has accelerated. This deterioration has occurred at a time when special receipts from the US, in both direct assistance and US military expenditures in France, have declined sharply from a level of \$1 billion in 1954-1955 to \$370 million in 1956-1957 (these special receipts are estimated at \$290 million for 1957-1958). An International Monetary Fund (IMF) credit of \$262 million, obtained in October 1956, is now exhausted and Bank of France gold and other foreign exchange holdings are under \$900 million. In these circumstances, the French government has applied restrictions on credit and on imports, reversing the trade liberalization policy being pursued with other Western European countries. Furthermore, on 10 August the French took comprehensive measures just short of actual devaluation to improve their exchange position. The rate for tourist exchange transactions was changed from 350 francs to 420 francs to the dollar. Simultaneously, the government announced that the higher rate would be applied, by means of a 20 percent export subsidy and a 20 percent import tax, to all trade except imports of essential raw materials and fuels. Nevertheless, France faces the probable necessity of borrowing from abroad.

The Economic Outlook

49. *The Short Term.* France is likely to be faced with increased economic difficulties over at least the next year or so. In order to stabilize the economy, the French government must reduce public and private demand to levels commensurate with French resources, which will increasingly have to be diverted to

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exports. The measures thus far adopted by the French to restrain inflationary forces are likely to prove inadequate. The tightening of credit and gradual reduction in the level of investment probably will reduce effective demand at only a slow pace. At the same time, the reduction of imports — while moving in the direction of a better external balance — is likely to lead to early and more intense pressures on the general level of prices.

50. The present government, or any likely successor, probably will be unable to take more drastic measures to enforce a policy of fiscal austerity in the near future. Dependence on Socialist support precludes sharp cuts in the field of social welfare, education, and public works, or substantial increases in taxes on mass consumption. Difficulties in attempting economies in this direction will be augmented by the likely growth of labor unrest. Dependence on conservative support for a parliamentary majority probably precludes sharp reduction in farm subsidies, or drastic increases in taxes on business incomes. Military expenditures for NATO-committed forces may be reduced, but substantial economies in defense will not be realized as long as the policy of forceful pacification continues in Algeria. In fact, depending on the intensity of operations in Algeria, military expenditures in 1957 could exceed present authorizations. Recent economies and tax measures will not reduce the absolute amount of the budget deficits for 1957 and 1958 significantly below that of 1956, although there will be some improvement in relation to the rising levels of both total expenditures and GNP.

51. In this situation, a number of proposed or already approved government programs may be further postponed or their implementation extended over longer periods. These include about \$800 million for long-term development of Saharan resources, an expensive reform and expansion of the French education system, extension of the medical insurance system, and a projected reorganization of the French Army. Even with a decrease in military operations in Algeria and a leveling off of public investment expenditures, sizable budget deficits are likely for at least several years.

52. The probable rise of price levels over the next few months will lead to greatly increased pressures on the level of wages. In current prices, wages in 1956 were 11 percent above the level for the previous year, but followed rather than led the combined rise in over-all productivity and the general level of prices. In 1957, the rise in wages is expected to outpace productivity and prices, thereby providing an independent stimulus to the inflationary spiral. There is likely to be growing disillusionment and unrest among the rank and file of the labor unions, hitherto largely restrained by the Socialist character of the government. The Communist-dominated CGT will increase its wage demands and will probably be able to exert greater pressure on the leadership of the other unions to support them. A fairly serious strike movement is likely to develop during the fall. The government will find it difficult to continue manipulating the official cost-of-living index and to resist wage demands. Since rates of growth of industrial production and productivity are likely to decline, there will be greatly reduced scope for granting wage increases which will not contribute to a wage-price spiral.

53. The over-all balance of payments deficit for 1957 is likely to be even larger than that of last year, which was over \$1 billion. A trade deficit approaching \$800 million was incurred during the first five months of this year; no foreseeable government action is likely to reduce the deficit even to the level of 1956. France still has drawing rights with the IMF for an additional \$262 million, and a West German loan of \$100 million through the European Payments Union has been discussed. However, the French government will probably be forced to draw further Bank of France gold reserves even if such foreign assistance should be forthcoming.

54. In these circumstances, increased attention is being devoted to the issue of outright devaluation. It is possible that the present government will officially devalue the franc, although many French leaders are convinced that such a step would be premature. They would prefer to wait until measures already taken could be supplemented by a compre-

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hensive program of financial stabilization. They fear that the psychological reaction of many Frenchmen to devaluation under present conditions would only intensify the already strong pressures on the level of prices, and that the resulting rise in prices would cancel most of the benefits of such a policy. In the short term, the government would prefer to rely on increasingly comprehensive trade and foreign exchange controls, and on increased investment incentives in export industries. This isolation of France behind a wall of extensive trade and exchange controls would damage prospects for European economic integration, but we do not believe that this consideration in itself would deter the government from adopting restrictive policies.

55. *The Longer Term.* By raising a wall of trade restrictions, France could probably for a considerable period check the loss of reserves and maintain economic growth, although at a somewhat lower rate. By concentrating scarce foreign exchange on the most essential imports and by special measures to expand exports, France might be able to achieve about a two to three percent annual increase of GNP and perhaps a five percent annual rate of industrial growth over the next few years. On the other hand, these estimates of France's ability to maintain moderate levels of economic growth within an increasingly protectionist framework depend on the willingness of other countries to keep their markets open to French exports.

56. Even should the French obtain some short-term external assistance from the IMF, West Germany, or elsewhere, foreign assistance is unlikely to be continued over a longer period unless the French give way to external pressures for fundamental reforms in their economy. Despite their huge exchange surplus, the West Germans in particular would be cautious about extending aid for fear that France would thereby merely be encouraged to resist basic changes.

57. A successful stabilization of the French financial position is unlikely until after a settlement of the Algerian conflict. The chances are slightly better than even that in the climate created by such a settlement a French

government would utilize the opportunity provided by an easing of demand on resources to place the fiscal system on a sounder basis, and free the economy from the straitjacket of foreign trade control and subsidies. Such reforms, given the substantial growth and modernization of the French economy since 1945, probably would in time enable France to participate in cooperative European institutions without reservations and fears for its economic future.

EUROPEAN COOPERATION

58. France's financial difficulties have stimulated moves toward economic isolation at a time when the French have taken a considerable step toward entering European cooperative institutions, which many believe provide the best hope for overcoming the problems besetting the French economy. This coincidence of favorable and adverse trends symbolizes the French approach to European cooperation. Successive French governments have either initiated or officially supported virtually all the major postwar efforts that have been made toward the integration of Western Europe. They have had the backing of various groups for a variety of not always consistent reasons, but they have also encountered opposition, the strength of which has varied with the proposal. Opposition was greatest to the EDC project, which dealt with the very sensitive question of integrating the French and German armies above the division level. There has been less opposition to projects for economic cooperation. While the French applauded the general theme of United Europe, they have found some difficulty in accepting concrete proposals for the attainment of this ideal.

59. French ratification of the Common Market (European Economic Community) and EURATOM (European Atomic Energy Community) treaties is encouraging but far from decisive. Ratification makes possible but does not necessarily assure a long-term commitment to a firm policy of Europeanization. A divided Assembly or an unenthusiastic government could at any time delay implementation of the plans during their initial phases. Such

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perils are more likely to beset the Common Market than the less complex EURATOM, especially since Europe's urgent energy problems were clearly illustrated by the Suez affair.

60. *The Common Market.* France to some degree repeated its EDC performance by making numerous demands on its five prospective partners during the negotiations on the Common Market. These demands were aimed primarily at reducing the degree of supranationalism in the treaty and at cushioning the French economy — especially the agricultural sector — against any strongly adverse impact from the lowering of trade barriers. The major French requests were largely satisfied, at the expense of some diminution of enthusiasm on the part of the other participants — especially the Dutch. While the force of the treaty has been somewhat diminished thereby, it nevertheless represents a potent instrument for economic change.

61. If the Common Market operates as intended, the French economy will gradually be forced out of its straitjacket of government protection and control, and powerful private economic pressure groups will lose some of their influence. Despite French fears of a drastic impact on manufacturing industries and of possible domination by West Germany, it appears that dislocations in the economy will be neither sharp nor disruptive. However, the potential benefits of the Common Market at best will only be realized over a long time, as envisaged in the 12 to 15 year transition period provided by the treaty. The Common Market project might make an even slower start than planned, since it is possible that the French government will not have revoked its drastic trade restriction measures by early 1959. In this case, the Common Market would not have a significant effect on the French economy during the period of this estimate. If, on the other hand, the French removed their trade restrictions and participated unreservedly in the project, it would have a substantial impact.

62. Efforts to create the Common Market are being matched in the broader field of European cooperation by an attempt to set up an associated European Free Trade Area (FTA),

to which the members of the "Six" would also adhere. The two projected organizations are largely differentiated by the degree to which customs barriers would be affected; the FTA members would abolish such barriers among themselves, but tariffs toward nonmembers would be maintained on an individual country basis. Much of the stimulus for the FTA — one which would exclude agricultural products — has come from British government circles who fear an improved West German competitive position within an implemented Common Market scheme to which the UK does not adhere. Few concrete steps have been taken toward creating the FTA, partly because of inherent difficulties and fears that negotiations simultaneous with those for the Common Market would diminish French support for the latter project. After ratification of that project is completed, negotiations on the FTA will probably go forward. In those circumstances, the French attitude is likely to be shaped principally by the wish to associate the UK with the cooperative trade movement as a counter to possible German economic hegemony, and by opposition to the British plan to exclude the agricultural sector from the FTA. If France is satisfied on the agriculture issue — the UK has already shown some disposition to compromise — it probably will support formation of the FTA.

63. *EURATOM.* Whereas the French approach to carrying out the provisions of the dramatic and far-reaching Common Market project may be hesitant at best, there is unlikely to be much foot-dragging on implementation of EURATOM. Because of French demands, the treaty permits its signatories to develop nuclear weapons programs on a national basis. This provision has satisfied most French nationalistic objectors; the reason why the opposition to the treaty was more vociferous than to the Common Market probably is that EURATOM requires immediate French action, while the former's provisions allow for considerable delay.

64. Implementation of EURATOM should greatly hasten the development and construction of nuclear power facilities, and at the same time reduce the chances of a costly

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French race with already impatient German industrialists. An expansion of domestic power resources is fundamental for a continued increase in France's productive capacity, and for the retention of its competitive position within the embryonic Common Market. Although EURATOM will not produce nuclear energy for industrial uses within the period of this estimate, it gives France an opportunity to reduce its dependence on Middle East oil over the next decade.

65. *Future Integration Attempts.* Many supporters of the two plans in France are primarily interested in their effect in stimulating action toward the political integration of the six Western European countries. France almost certainly will continue to participate in the broad forms of European cooperation for the foreseeable future. It appears ready to move ahead cautiously with the two current treaties. But French ratification of the treaties does not presage any disposition to accept the thesis of a political European union. France needs the shared strength which present and incipient cooperative organizations can provide; it is far from convinced that more than this is required. However, if the present treaties are fully implemented and complementary institutions of the OEEC-type established, the long-term trend would probably be toward a more confident and interdependent Western Europe. Under such circumstances, France slowly might change its attitude toward a supranational political organization.

66. *The Eurafrica Policy.* Many French leaders wish to use European integration as a device for associating their Common Market partners with them in the attempt to maintain the French position in Africa. The French hope that their African territories will be restrained from demanding independence by their pressing need for economic assistance, but are having difficulty in continuing to provide colonial development funds at present levels. They therefore made their participation in the Common Market project dependent on contributions for colonial development from their European partners. While some Frenchmen believe that European integration and preservation of their special status

in Africa are mutually exclusive policies, this is not a widespread view.

67. A common investment fund for dependent overseas territories is provided for by the European Economic Community Treaty. The amount is set at over \$580 million for the first five years after ratification, and the French Black African territories are to receive the bulk of that sum. Algeria has been given a special position in the Common Market, and France would also like to associate Morocco and Tunisia with the project. However, while the Algerian conflict continues, these two countries almost certainly will not participate, and a permanent basis for Algerian association with the Common Market cannot be determined.

68. We do not believe that the results of linking the Common Market with the Eurafrica policy will come up to French expectations. The application of the *loi-cadre* to the French African territories will probably stimulate further demands for more self-government, and increase speculation about independence.⁴ Some high French officials already believe that many of these territories will become independent within two to five years. African nationalists will regard the need for development funds as only one element in the association with France; many of them are unlikely to be inhibited from additional political demands by economic considerations. In any case, the projected expenditures through the Common Market amount to only about \$100 million a year, and the net effect of this spread over more than a dozen French territories may not be very substantial. This would be particularly true if France, which is to contribute roughly 40 percent of the fund, is forced to lower the level of its past independent development expenditures. Moreover, the other European countries involved will not be eager to assume even indirect political responsibility for developments in French African areas, and the French will be anxious to avoid any weakening of their influence. Those countries will still be subject to certain

⁴For more information on these African territories, see NIE 72-56, "Conditions and Trends in Tropical Africa," published 14 August 1956.

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restrictions in their economic access to the African territories in spite of their somewhat reluctant participation in the development fund over the next five years.

FOREIGN AND DEFENSE POLICIES

69. France is currently torn between the desire to recapture its status as a great power and a growing fear that sooner, rather than later, it must recognize that this is impossible. The French action at Suez, strong support for Israel, and general policies toward the Middle East over the past year were all stimulated by a national sense of outrage over Arab assaults on Algeria, which the French believe is the key to their position as a world power. The failure in Egypt illustrated for France the decline in its power position, but French leaders have not fully faced up to the implications of this decline. The French commitment to Algeria in large measure has inhibited a reappraisal of their defense and foreign policies similar to that made by the British.

70. The nature of the governmental organization is one of the factors contributing to French slowness in adjusting to the decline in France's power position. In view of governmental instability, much of the power to determine French policy action rests with the bureaucracy. Many of the ranking members of this group have roughly the same background, experience, and intensive education. Their common outlook is based upon an appreciation of the historical role of France in Europe and the world; it is not necessarily republican, and it is generally conservative. Some members of this administrative class serving France abroad have at times imposed their own views in the absence of firm direction from the government. For example, French representatives in Indochina have been and will probably continue to be addicted to maneuvers which do not necessarily reflect the attitude of the French government. Bureaucrats of this type tend to influence French policy toward a view of the world based on the past greatness of France, and toward conservatism.

71. *Effects of the Algerian Problem.* The Algerian issue continues to shape France's

policies toward not only intimately affected areas, but also its major allies and the UN. In particular, the issue is affecting French attitudes toward the US, whose intentions with regard to both North Africa and the Middle East are suspect in French eyes. France will persist in measuring US friendship by the yardstick of support — or at least lack of opposition — on its Algerian policy. Moreover, the French are likely to weigh their actions in other areas against the US position. For example, there is increased sentiment in France favoring recognition of Communist China, but the French government will probably forestall any concrete move in that direction so long as it is satisfied with the US attitude toward Algeria. UN discussion of the Algerian problem aroused considerable indignation in France. That discontent was mollified by the last General Assembly's proceedings, but France is likely to walk out of the forthcoming or a later session if it results in a decision on Algeria adverse to the French. Although there is no present disposition toward withdrawal from the UN, it is possible — though unlikely — that a right-center government would withdraw if the General Assembly took a strong anti-French stand.

72. French policies toward Morocco and Tunisia will probably continue to be based on the theme of interdependence. However, the development of new and enduring relationships between France and those areas will be greatly hampered so long as the Algerian problem is not resolved. There has already been a series of incidents involving these areas. Although some progress has been made in remedying the resulting setbacks in relations, each incident diminishes mutual trust and renders less likely the construction of a new relationship satisfactory to both sides. Further incidents will probably occur while the Algerian fighting continues, and it is possible, though unlikely, that Morocco and Tunisia will become directly involved in the armed conflict with France.

73. *Policies Toward the Western Alliance.* France continues to adhere to the Western alliance system as the basis of French foreign policy, while insisting on its independence

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from the US and its right to a larger role in determining the policies of the alliance. Although there was considerable resentment over the isolation of France and the UK from their NATO partners during the Suez intervention, the failure of the intervention had the net result of increasing French realization that the alliance was fundamental to their security. There has been a reaffirmation of French insistence on the retention of American and British troops on the continent in order to: (a) guarantee US involvement in any Soviet attack on Western Europe; (b) fulfill the need for conventional ground forces while those of France are concentrated in North Africa; and (c) operate as a restraint on West Germany.

74. France will probably remain committed to the Western alliance for the foreseeable future. There are minority voices besides the Communists' which will call for a more neutral position, a European "third force," or an understanding with the USSR permitting France to become wholly neutral. But these elements almost certainly will not be able to determine French policy. Even in the improbable event of a popular front or of an ultraconservative government, we believe it unlikely that France would withdraw entirely from its international commitments. There is a more likely danger that a crisis over Algeria in some way might become linked in French minds with betrayal by the Western allies; a wave of intense nationalistic feeling might then cause a temporary breakdown of cooperation with France's allies.

75. While France will continue to support NATO, it will follow an independent policy on many issues. The French will try to maintain their freedom to take unilateral action against Arab nationalist pressures, and to play a role in Middle Eastern affairs. They will almost certainly seek to gain support, or at least acquiescence, from their Atlantic partners for these policies. The French will probably resume their efforts to relax East-West tensions whenever the opportunity arises. They will be particularly interested in economic assistance to underdeveloped countries (which, according to the so-called Pineau

plan, should be extended through international agencies), in economic and cultural contacts, and in promoting disarmament. However, in view of their emphasis on the inclusion of conventional forces and their desire to safeguard their position as a possible nuclear power, the French will probably continue to take a cautious attitude toward concrete disarmament proposals.

76. Within the NATO framework France is likely to give particular attention to the seven-member Western European Union (WEU), which it considers as largely its own creation. Among the stimuli for this approach are: (a) the French wish to cultivate closer relations with its neighbors, as a result of Suez and a renewed interest in European integration; (b) the desire to keep a close watch on West Germany; and (c) the hope of bringing the UK further into continental affairs as a counterweight to Germany. While France would still fear the possibility of German predominance in Western Europe, suspicion of the Germans has diminished considerably over the past year of two. The French appear to envisage closer relations with Bonn; for example, there is genuine French interest in standardizing non-nuclear weapons with Germany and the other WEU members. They have accepted the general US concept of German reunification as linked with disarmament and the European security issue. However, the French public has not been fully persuaded by the more cordial approach of its government. France might take a much more cautious attitude if prospects for German reunification were improved.

77. *The French Defense Posture.*⁵ France has an army of almost 800,000 men, an air force of about 3,900 aircraft — of which over 1,600 are jet aircraft — and a navy with a substantial antisubmarine force, centered around three aircraft carriers, as well as escort, patrol, and minesweeper forces. The navy has performed well in complex NATO exercises. However, the French ground forces contribution to NATO has been reduced almost to the vanishing point and the air con-

⁵ See Appendix for a summary of French military strength.

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tribution has been seriously diminished over the last two years. The French have the capacity for a modest nuclear weapons program (an annual production rate of three nominal-size bombs in 1958; increasing to an annual rate of 110 by 1967), which they are on the verge of adopting.⁶ France could make a more substantial contribution to Western defense by implementing the French Army's plan for reorganizing and re-equipping its armed forces to increase the mobility and fire-power of its divisions. Such units could meet the requirements of either limited operations in overseas territories or large-scale operations on the European continent. It is not doing so now because stringent financial limitations and the involvement of large forces in Algeria prevent the necessary reform measures.

78. French technical and scientific competence in military research and development remains among the best in Europe, especially in the fields of radar electronics, metallurgy, and aeronautical engineering. However, there is a serious lack of trained technical personnel available for the development of full-scale production in these areas, and little likelihood that the numbers of scientists and engineers will increase significantly in the near future. This deficiency, coupled with a severe shortage of funds, suggests that many weapons improvements and developments, although first-rate in design, will remain in the prototype stage during the period of this estimate.

79. Termination of the Algerian conflict will improve France's military posture in Europe, but certain weaknesses will remain. The probable diversion of funds to a nuclear program will be likely to delay the re-equipping of the armed forces without a compensatory increase in potential for resistance to Soviet aggression, since the French cannot develop a substantial independent nuclear capability by 1960. In the field of guided missiles emphasis will be placed on defensive and short to medium range weapons. US aid will plug some, but not all, equipment gaps.

⁶For further discussion of French nuclear policy, see NIE 100-6-57, "Nuclear Weapons Production in Fourth Countries—Likelihood and Consequences," published 18 June 1957.

THE OUTLOOK

Prospects for an Algerian Settlement

80. We have estimated above that there is an even chance that by the end of this year the French will give serious consideration to negotiating a settlement with the FLN. We believe that moves toward a settlement are likely within the next 12 months, unless some dramatic international incident has meanwhile caused a fresh outburst of nationalistic reaction in France. In the initial negotiations, the French would probably hesitate to concede the principle of independence, while the FLN probably would demand not only the principle but a timetable for its implementation. Both parties might prove adamant to the point of a temporary breakdown of the talks, but there is a good chance that they would resume after a relatively brief period on the basis of a French concession of eventual independence. We believe that the chances are about even that a settlement will be reached within the next 18 months, and that it is probable that there will be a settlement before the end of 1960.

81. However, it would first be necessary for any French government to obtain parliamentary majority approval—probably excluding Communist votes—for such a course of action. It might be that Assembly sanction for a negotiated settlement could only be achieved through the formation of a "national union" government (consisting of all political parties except the right and left extremes). It is unlikely that the Socialists and Radicals would be willing to share responsibility solely with the Communists for a closing out of the Algerian conflict; they would almost certainly attempt to associate the right-center with such an effort.

82. Until a settlement is negotiated, the French will continue their efforts both toward imposing a political solution and repressing rebel guerrilla activities. Open moves in the direction of concessions to the FLN will almost certainly be accompanied by *colon* violence. We believe that such outbreaks will not attain the proportions of a general up-

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rising unless the French Army as a whole supports such an effort, which we estimate it will not.

83. The terms of a settlement would probably be based on French recognition of the right to eventual independence and a grant of a substantial measure of national autonomy to the Algerians, coupled with extensive safeguards for the *colons*. The FLN would probably be willing to promise protection for French and *colon* interests in return for assurances of continued French assistance with Algeria's economic, technical, and administrative problems. These terms, once approved, would probably take some time to implement. Thus, even if the French and the rebel leaders achieve a negotiated settlement within the next 18 months, there will still be unrest in Algeria. A solution based on substantial autonomy would probably restore order at least temporarily, but the Algerians would soon be pressing the French for more rapid progress toward independence, and might resort to violent pressures. There would almost certainly be some degree of friction and perhaps armed conflict between the Algerians and the *colons*. The French therefore would probably not be able to disengage themselves completely from the Algerian problem over the next several years in terms of either troops or expenditures.

84. *The Alternatives*. While the course of events indicated in paragraphs 80-83 is the most likely, it is by no means certain, and could be altered by many contingencies. Hence, we have examined several possible alternative developments.

85. It is possible that the pressures within France to come to terms with the FLN will fail to achieve sufficient momentum to ensure a compromise solution. In the short run, significant FLN successes in the diplomatic or military sphere might strengthen French intransigence. As a result, the process of exploratory talks might suffer long interruptions, and the conflict might be prolonged into the period of the French national elections, which could entail a further postponement of a settlement. Under these circumstances, the rebels might turn to the Bloc

for direct military and other assistance, particularly if the FLN estimated that the US and other Western powers would continue to be unsuccessful in their attempts to moderate French intransigence. Any effort by the French during this period to separate the Sahara from the coastal areas and to create a *colon* enclave within those areas would intensify Moslem hostility to the French. Furthermore, the growing bitterness accompanying a long drawn out conflict would make the rebels increasingly less willing to accept anything short of immediate independence. Thus, eventually the only alternatives to continued French military occupation would be the forced partition of Algeria, or a grant of outright independence for all Algeria with only initial protection for the *colons* and French interests. The first alternative would pose difficult and continuing problems for the French.

86. Another possible alternative is a reversal of French policy in the direction of concluding an agreement for Algeria's independence with the FLN over the next six months or so — perhaps with the five rebel leaders captured last October and now imprisoned in France. Although this alternative to prolongation might crystallize with little or no warning, we believe it unlikely that any French government during the remainder of this year would have sufficient authority to make such a change, or that the French would abandon so quickly their hopes for an imposed solution.

Prospects for the Fourth Republic

87. We have already stated our belief that future French governments are likely to be formed for the most part from an Assembly minority — either the center-left (Socialists and Radical Socialists) or the center-right (MRP and *Modérés*) — with precarious support from other democratic parties. The deep division between the Socialists and the *Modérés* on economic and social issues and between the Socialists and the MRP on the clerical issue seem to preclude the formation of a broad center government unless the threat from the extremes forces them together.

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88. Under current conditions, we thus would expect French cabinets over the next few years to be based on minority coalitions of either a center-left or center-right complexion. The present distribution of political strength in the Assembly suggests that center-left governments are more likely to be formed than center-right governments. However, over a longer period the Assembly may — as it often does between elections — drift toward the right. It is possible — though highly unlikely — that the Assembly might be dissolved before the expiration of its term in 1960.

89. *The Threat from the Extremes.* A number of threats to this relatively static political situation are currently developing, and may become critical during the period of this estimate. Substantial dangers might arise from the Algerian situation: the government might suddenly offer extensive concessions to the Algerians which the French public would not be ready to accept, or the government might appear to be without a policy at a time when incidents and French reverses had reached a high level. Either contingency could touch off intense demonstrations and riots in Paris, which might be taken advantage of by either the Communists or the extreme right. But these would probably not be sufficiently well-planned or sustained to create a real threat to the Republic. Another danger is that strong external pressures on France with regard to the Algerian and economic problems might stimulate highly emotional, chauvinistic demands from the French public which the government would be unable to satisfy. Such an eventuality might cause a cabinet crisis, but would be unlikely to result in the overthrow of the constitution. There also is the threat that deteriorating economic conditions could result in a dangerous degree of labor unrest which could be exploited by extremists of either side.

90. The real but very limited strength of the extreme right is centered in a heterogeneous group drawn from the upper and middle classes which for diverse reasons is hostile to the Republic. This group can gain some mob support from a few war veteran organizations and other malcontents. However, although

a number of somewhat obscure military figures are connected with them, these rightist elements have no obvious leader and they lack any substantial popular support. The Poujadists have been losing strength and cohesion ever since the last Assembly election. They might form a significant element in any rightist attempt at a coup, but they probably would not be able to assume the leading role in such an attempt. The mood of the French public would have to be far more revolutionary than it is at present for the right to have any prospect of success in an attempt to overthrow constitutional government.

91. General DeGaulle continues to be a focal point for speculation about a rightist bid for power. However, his actions and statements have not been those of a man who is interested in taking control of France; and his views on many questions, including North Africa, appear to be closer to those of the moderate left than those of the right. In any case, he would almost certainly not lend himself to such a bid unless it were cloaked in a legal and popular garb and were certain of success. He might be called to the premiership by the President of France in the event of a severe crisis; he would probably insist upon assurances from parliamentary leaders that the constitution would be amended to establish a strong and independent executive authority before he would accept such a call.

92. The Communist Party has suffered only a slight decline in terms of membership and organization strength; it still controls the CGT, and it retains its electoral position as the largest political group in France. On the other hand, it has lost whatever political respectability it acquired during the period immediately prior to the Hungarian uprising. Socialist refusal to cooperate in any way with the Communists has been confirmed in recent months. It continues to be highly unlikely that the Communists will be able to form and participate in a "popular front," or that they would attempt a bid for power through extra-legal means. A popular front of the 1936-type in any case has little relevance to the current French scene, since the prototype was based on very different condi-

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tions, and since occasional Communist voting support has been accepted by recent governments without any reciprocal commitment.

93. The essential condition for an increase of Communist influence on the government of France is a working agreement with the Socialists. We do not exclude the possibility that circumstances will permit some future limited advance toward that goal. A majority consisting of the moderate and extreme left conceivably might be formed for the sole purpose of closing out the Algerian problem on terms of French withdrawal. But we regard this as the least likely parliamentary approach to that contingency. If an alliance between the leftist parties should be formed to deal with pressing economic problems, it would have better prospects for at least a brief survival. However, we consider such an alliance extremely unlikely unless the economy should deteriorate much more seriously than we foresee. In addition, we believe that the more conservative groups in the French Assembly would be inclined to compromise with the moderate left on economic and social legislation if the spectre of an agreement between the Socialists and Communists were raised.

The Future French Position

94. We thus believe that the Fourth Republic will survive during the period of this estimate. However, the next few years almost certainly will subject the fabric of French political, economic, and social institutions and practices to heavy strains. French governments will continue to have only limited maneuverability between the left and right extremes in the Assembly. They will encounter severe diffi-

culties in attempting to find politically acceptable solutions to the problems they will face; they will be caught between the necessity for taking some kind of action, and the fear that any action will create new cleavages and precipitate an adverse Assembly vote. Hence there is likely to be a stalemate on many issues.

95. Nevertheless, certain far-reaching changes may take place within the period of this estimate. The Algerian problem will probably be settled on terms of increasingly weakened ties with France which will eventually lead to independence. France will be subjected to strong pressures from its allies within the NATO and European organizations for closer coordination of its policies with theirs. There is likely to be a serious attempt to normalize France's economic relations with the outside world on the basis of a devaluation and stabilization of the franc.

96. France may be able to turn some of these events to its advantage. However, in many cases there will not be clear-cut decisions and France probably will still be deeply involved in Africa and its pursuit of great-power status. It will experience the frustration of having insufficient resources to pursue the policies seen as vital to that status, and it will probably be undergoing a highly emotional reaction to the gradual continuing decline of its past greatness. In this situation, there will be mounting pressures for a change at the time of the 1960 Assembly elections, but the innate conservatism of the French and the resistance of their institutions to repeated assaults are likely to preclude a basic reappraisal of the nation's needs and the future role of France in world affairs.

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FRENCH MILITARY STRENGTH

1. Numbers and distribution of armed forces:

<u>Location</u>	<u>ARMY</u>		<u>AIR FORCE</u>
	<u>Strength</u>	<u>Divisions</u>	<u>Squadrons</u>
West			
Germany	58,000	2	3
Metropolitan			
France	221,000	3	38
Algeria	360,000	14	12 (+31 flights)
Tunisia	25,000	1	3 (+ 1 flight)
Morocco	65,000	4	2 (+ 4 flights)
Elsewhere	62,000	—	1 (+10 flights)
Unlocated	4,000	—	—
Total	795,000	24	59 (+46 flights)

NAVY

<u>Ships</u>	<u>In Service</u>	<u>Building</u>
Aircraft Carriers	3	2
Battleships	2	—
Light Cruisers	2	—
AA Light Cruisers	1	1
Frigates	2	—
Destroyers	15	4
Submarines	14	19*
Patrol Vessels	89	20
Minesweepers	124	7

* Including one nuclear-powered submarine.

NAVAL AVIATION

<u>Location</u>	<u>Squadrons</u>
Metropolitan France	14
Algeria	8
Tunisia	1
Morocco	6
Elsewhere	1
	30 (771 aircraft, of which 87 jets)

2. The French Army divisions stationed in West Germany and France, and 12 of those in North Africa, are NATO-committed. Of these,

only the two in Germany, plus not more than two currently in North Africa, could be combat-effective in Europe within 30 days after mobilization. Divisions in France have been drastically depleted, and even those remaining in Germany somewhat weakened, by security requirements in North Africa. NATO divisions in North Africa are separated from most of their heavy equipment in depot storage in Europe. The impact of the Algerian conflict on NATO is apparent when the present status of French forces is compared to that of 1953-1954, when there were good expectations of 14 reasonably effective divisions available to NATO in Europe by M+30 days.

3. On the other hand, although higher unit training in preparation for war on the continent may have suffered, valuable and practical experience has been gained at the small unit level. Army-Air Force cooperation and teamwork have improved appreciably; the tactical employment of helicopters has been studied and developed; there has been extensive practice in the use of communications; and staffs are now well-trained in the planning and execution of tactical operations, up to division level.

4. French Air Force over-all capabilities remain below NATO standards. In particular, only 12 of the 21 NATO-committed squadrons are considered combat-ready, largely because of diversion of personnel to non-NATO units in Algeria, and an extensive re-equipment program. However, if the projected increase in all-weather fighter capability materializes, and if modernization of the AC&W network continues, there will be an improvement in air defense of metropolitan France over the next two or three years. Over-all capabilities may also be improved during that period as a result of rotation of combat-experienced personnel from Algeria to NATO units in Europe. Moreover, plans are underway to activate one Bomber Command squadron equipped with the Vautour (a twin-jet light bomber) by the

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end of 1957. By late 1960 this Command may increase to six squadrons of 12 aircraft each.

5. The French Navy's effectiveness is somewhat limited by obsolescent ships and aircraft, but is being steadily improved by re-

placement under the building program. Notable improvement is expected in late 1959 with the scheduled completion of two aircraft carriers from which jets may be operated. In view of budgetary limitations, however, no appreciable expansion in size is likely.

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